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C. Fluctuating cost factor:

1. Application of the consumer price index:

Allowable audited cost per patient day up to the maximum reasonable cost

- Costs covered by the Fair Rental Allowance
- Interest cost per patient day
Remaining Cost

Remaining Cost X CPI*

2. Application of the enhanced nursing facility inflation allowance amount:

Total allowable audited administrative and health care costs from the preceding year cost report.

X 5.4495

+ Total patient days for the same cost reporting period

This per diem amount is multiplied by the paid Medicaid patient days for the period covered by preceding year cost report.

* The Consumer Price Index (CPI) for all urban consumers. For rates set from six-month cost reports, the CPI is reduced by half to reflect fluctuating costs for the approximately six-month period for which the rate is in effect. A full CPI is used for rates set off of 12-month cost reports which will be for rates in effect for approximately 12 months.

**Enhanced Nursing Facility Inflation Allowance is applied to all facilities with prospectively set rates. Those facilities with retrospective rates are not subject to the Enhanced Nursing Facility Inflation Allowance. The Enhanced Nursing Facility Inflation Allowance is effective on October 1, 1991 and rescinded effective October 1, 1992.

- D. 1. Effective with rates of payment on or after July 1, 1985, the method of reimbursement for land, buildings and fixed equipment shall be based on a fair rental allowance for such assets. The historical cost method of reimbursement shall no longer be used for these assets.

TRANSMITTAL NO. 97-004
Date Approved 06/25/97
Effective Date 10/01/97
Supersedes Transmittal 96-002

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D. 2. Definitions:

- a) "Acquisition cost" means the actual allowable cost to the owners of a capital-related asset or any improvement thereto as determined in accordance with generally accepted accounting principles.
- b) "Appraised value" means the determination by a qualified appraiser who is a member of an institute of real estate appraisers or its equivalent the cost of replacement of a capital-related asset to its current owner.
- c) "Base value" means:
 - 1(a)(1) For the fiscal year 1985-86, the acquisition cost of a capital-related asset together with any increase or decrease each year since the date of acquisitions reflected in the index.

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- (2) In determining the base value for the fiscal year 1985-86 of a capital-related asset acquired prior to July 1, 1981, the date of acquisition shall be deemed to be July 1, 1981.
- (b) For the fiscal year 1986-87 and every fourth year thereafter, the appraised value of a capital-related asset.
- (c) For each year in which an appraisal is not done pursuant to subparagraph (b) of this paragraph (c), the most recent appraisal together with fifty percent (50%) of any increase or decrease each year since the last appraisal as reflected in the index.
2. For the fiscal year 1985-86, the base value shall not exceed twenty-five thousand dollars (\$25,000) per licensed bed at any participating facility, and, for each succeeding fiscal year, the base value shall not exceed the previous year's limitation adjusted by any increase or decrease in the index.
3. Any improvement to a capital-related asset shall increase the base value by the acquisition cost of the improvement.
- d) "Capital-related asset" means the land, buildings and fixed equipment of a participating facility.
- e) "Fair rental allowance" means the product obtained by multiplying the base value of a capital-related asset by the rental rate.
- f) "Fiscal year" means the State Fiscal Year from July 1 through June 30.
- g) "Fixed equipment" means building equipment as defined under the Medicare principle of reimbursement as specified in the Medicare provider reimbursement manual, part 1, section 104.3. Specifically, building equipment includes attachments to buildings, such as wiring, electrical fixtures, plumbing, elevators, heating systems, air conditioning systems, etc. The general characteristics of this equipment are:

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Date Approved 06/25/97
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- (1) Affixed to the building and not subject to transfer; and
 - (2) A fairly long life, but shorter than the life of the building to which affixed.
 - h) "Improvement" means the addition to a capital-related asset of additional land, buildings, or fixed equipment.
 - i) "Index" means the Dodge Construction system cost index which is based upon a survey of prices of common building materials and wage rates for nursing home construction.
 - j) "Rental rate" means the average annualized rate for twenty-year treasury bonds issued by the United States for the preceding year. However, the rental rate shall not exceed nine percent for the State Fiscal Year 1985-86, eleven percent for State Fiscal Year 1986-87 and July 1987, and ten percent for State Fiscal Year 1987-88 which begins on August 1, 1987 and ends June 30, 1988.
3. Implementation of the fair rental allowance for capital-related assets in fiscal year 1985-86.
- a) The Department shall determine the base value of each facility in accordance with the definition specified above. The base value shall be multiplied by a rental rate of nine percent (9%). This product shall establish the fair rental allowance amount. This fair rental allowance amount shall replace the previously allowed costs for depreciation, amortization, rental and interest related to land, buildings and fixed equipment as established under the historical cost method of reimbursement.
 - b) Two types of facilities are exempt from this fair rental allowance system. These facilities are as follows:
 - (1) Leased facilities may, at the option of the provider, be exempt from the fair rental allowances reimbursement methodology. Such opting providers shall be reimbursed in accordance with the section of this State plan entitled standards and subtitled lease costs.

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Date Approved 06/25/97
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- (2) Home and community based services facilities for the developmentally disabled are exempt from the fair rental allowance method of reimbursement.
- c) In cases where the nursing home's per diem rate on or after July 1, 1985 is lower than the per diem rate in effect on June 30, 1985, solely as a result of adjustment to property cost to implement the fair rental allowance method of reimbursement, the per diem in effect on June 30, 1985 shall remain in effect. Included in this clause shall be rates which were lowered due to adverse changes in the incentive allowance or fluctuating costs allowance payments, due solely to the fair rental allowance system method of reimbursement.
- d) (1) The fair rental allowances as established by these regulations shall only be adjusted due to the following:
- (a) The base value of a facility can be increased in subsequent cost reports due to improvements as specified in the definition section of this regulation.
 - (b) Revisions to cost report (MED-13) data as specified in the Section (e) below.
 - (c) At the start of a new State Fiscal Year (July 1) by a new rental rate amount, additional Dodge Construction indices or base values changed through appraisals.
- (2) The fair rental allowances as established by these regulations shall not be changed during fiscal year 1985-1986 by the following:
- (a) A fluctuating cost allowance as specified in the section of this manual entitled computation of individual reimbursement rates.
 - (b) By changes in ownership in cost reporting periods with rate effective dates on or after July 2, 1985.
 - c) Changes in the maximum reasonable cost ceilings for ~~administration~~, room and board and property and the related incentive allowance payments.

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- e) When determining the base value for Fiscal Year 1985-86 the acquisition cost shall be determined on the basis of the following information from cost reports (Form MED-13) which established the rates in effect on July 1, 1985.
- (1) Those audited allowable costs listed on the following lines or sections on Schedule D shall establish the acquisition costs: building equipment (fixed), buildings, leasehold improvements and land.
- (a) In some cases, the costs of other kinds of equipment on Schedule D (which should have been listed on the lines for departmental equipment, other equipment, office furniture and fixtures, motor vehicles) have been entered in one sum under building equipment (fixed). Under these circumstances, the contract auditor shall do the following:
- (1) Reduce the building equipment (fixed) entry by twenty percent (20%) to account for the obvious over statement of cost on the building equipment (fixed) line.
- (2) Any providers whose building equipment (fixed) costs is so adjusted may do the following to properly revise their costs. Submit after receipt of the adjustment sheet for the July 1, 1985 rate (which should contain the twenty percent (20%) adjustment) a specific listing of fixed building equipment costs versus the other kinds of equipment which should have been listed on other lines and sections of Schedule D. The provider shall use the definition provided in this manual on fixed equipment when completing the list. This information shall be submitted in a format specified by the contract auditor.

This specific listing of costs will be audited by the contract auditor at the next regularly scheduled field audit. Any adjustments resulting from this audit shall be applied retroactively to rates paid since July 1, 1985.

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The provider which does not submit this list of costs shall only receive the rate originally set by the Department.

- (2) This acquisition cost shall be indexed by the Dodge Construction systems costs. Specifically, the percentage rate of change per year in dollar cost per square foot for the average nursing home building type shall be added to the acquisition cost in the following manner:

<u>Year Facility Purchased</u>	<u>Acquisition Cost Adjusted by Percentages</u>		
	<u>1983 Index</u>	<u>1984 Index</u>	<u>1985 Index</u>
July 1, 1981-June 30, 1982	7.1%	+ 3.1%	+ 7.5%
July 1, 1982-June 30, 1983		3.1%	+ 7.5%
July 1, 1983-June 30, 1984			+ 7.5%

- f) The acquisition cost as specified herein replaces the component of the rate which was established under the historical cost method of reimbursement for land, building and fixed equipment. Therefore, the following costs on the same cost report, as adjusted above, shall no longer form a part of the rate.

- (1) Depreciation expense as listed on Schedule C, column 12, line 25 (minus depreciation expense not related to capital assets).
- (2) Amortization expense as listed on Schedule C, column 12, line 26 (minus amortization expense not related to capital assets).
- (3) Interest expense as listed on Schedule C, column 12, line 29 (minus interest related to expenses not related to capital assets).
- (4) Rent expense as listed on Schedule C, column 12, line 28 (minus rent expense not related to capital assets).

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- g) The following procedural steps shall be taken by the contract auditor to identify the depreciation, amortization, interest and rent costs not related to capital assets. These costs once identified shall become a part of the administrative, property and room and board component of the rate.
- (1) The contract auditor shall try to make a reasonable determination from the information available in the cost report and workpapers the percentage of costs in these lines which should be deducted from the administrative, property and room and board portion of the rate.
- (2) If the contract auditor is unable to determine a percentage of the cost which should be deducted from the administrative, property and room and board portion of the rate then twenty percent (20%) of the costs in these lines shall remain in the administrative, room and board and property portion of the rate.
- (3) (a) All providers upon receipt of the adjustment sheets for the July 1, 1985 rate (which should contain these adjustments), may provide a specific listing of the depreciation, amortization, interest and rent costs not related to capital assets. This specific list shall be provided to the contract auditor in a format specified by the contract auditor.
- (b) This specific listing of costs shall be audited by the contract auditor at the next regularly scheduled field audit after the specific listing is received. Any adjustments resulting from this audit shall be retroactively applied to rates paid since July 1, 1985.
- (c) If a provider chooses to provide a specific listing of costs, the listing must cover all four (4) areas of costs (depreciation amortization, interest and rent).
- (d) If a provider does not provide this specific listing within ninety (90) days, then the rates first set by the Department for July 1, 1985 shall remain in effect.

TRANSMITTAL NO. 97-004
Date Approved 06/25/97
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(4) The fair rental allowance shall become the third component of the rate. The other two components of the rate shall be:

(a) Administrative, room and board and property (with the relevant amount of incentive allowance and fluctuating cost allowance); and

(b) Health and raw food costs (with the relevant amount of fluctuating cost allowance).

Therefore, each nursing home is given three rates. The rate for administration, property, and room and board is the sum of the audited allowable costs (or the maximum reasonable cost, whichever is lower), the fluctuating cost factor, and the incentive allowance, if any. The rate for health care services and raw food is the sum of the audited allowable costs (or the maximum reasonable cost, whichever is lower) and the fluctuating cost factor. The rate for land, buildings and fixed equipment is established by the fair rental allowance formula or, in the case of lessee, may be established by the lease fee formula. This is illustrated below:

Audited allowable administrative, room and board and property cost per patient day up to the maximum reasonable cost:

+ Fluctuating cost factor (excluding interest)
 + Incentive allowance (if applicable)
 = Rate for administration, room and board and property

PLUS

Audited allowable health care and raw food cost per patient day up to the maximum reasonable cost:

+ Fluctuating cost factor
 = Rate for health and raw food

PLUS

Fair rental allowance for land, buildings and fixed equipment unless the lease reimbursement option is utilized in cases of a leased facility. Implementation of the fair rental allowance for capital related assets in Fiscal Year 1985-86.

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 Date Approved 06/25/97
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A. The following definitions shall serve as the basis by which the fair rental allowance payments are calculated and paid to facilities for State Fiscal Year 1987.

1. Base Value: Value of the capital related assets of a nursing home is determined by the appraisal report completed by the Department's appraiser pursuant to RFP-GB-347 (October 21, 1985) and any additional information used by the Department to establish the appraised value. Under no circumstances will the base value be greater than \$25,000 per bed plus one year's percentage rate of change in the Dodge Construction Index dollar cost per square foot for the average nursing home building type.
2. Rental Rate: Shall be eleven percent (11%) for State Fiscal Year 1986-87.
3. Fair rental allowance amount: The base value times the rental rate. This sum shall then be adjusted to reflect the period of days covered by the cost report (MED-13) used to calculate the fair rental allowance per diem rate as described below.

Specifically, this figure is divided by number of days in the year and then multiplied by the number for days in the period covered by the cost report (MED-13).

4. Fair rental allowance per diem rate: The fair rental allowance amount divided by the higher of audited patient days on the MED-13 or ninety percent (90%) of bed capacity on file with the Colorado Department of Health when the onsite portion of the appraisal was completed, except as otherwise provided in subparagraph c below:

- (a) The patient days used in this calculation are from the MED-13 report which established the Medicaid rate for the other cost centers. As the rates change due to new MED-13 cost reports, so shall the fair rental allowance calculation due to the change in patient days.

Transmittal NO. 97-004
Date 06/25/97
Effective Date 10/01/97
Supersedes Transmittal 96-002